STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion -vs- Commonwealth Edison Company Investigation of Rate Design Pursuant to Section 9-250 of the Public Utilities Act.	: : : : : : : :	**Docket No. 08-0532**

REPLY BRIEF OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, pursuant to Section 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission's ("Commission"), respectfully submits its Reply Brief in the above-captioned matter.

I. INTRODUCTION

The Initial Brief of the Staff of the Illinois Commerce Commission ("Staff's Initial Brief" or "Staff IB") was served on the parties on November 20, 2009. The Initial Brief of Commonwealth Edison Company ("ComEd's Initial Brief" or "ComEd IB"); the Initial Brief of the Peoples of the State of Illinois ("AG's Initial Brief" or "AG IB"); the Initial Brief of the Northeast Illinois Regional Commuter Railroad Corporation, d/b/a Metra ("Metra's Initial Brief" or "Metra IB"); the Initial Brief of the City of Chicago ("City's Initial Brief" or "City IB"); the Initial Brief of the Coalition to Request Equitable Allocation of

Cost Together ("REACT's Initial Brief" or "REACT IB"); the Chicago Transit Authority's Initial Brief ("CTA's Initial Brief" or "CTA IB"); the Initial Brief of the Illinois Industrial Energy Consumers ("IIEC's Initial Brief" or "IIEC IB"); the Initial Brief of the Commercial Group ("Commercial Groups' Initial Brief" or Commercial Group IB") and the Initial Brief of Kroger Co. ("Kroger Co.'s Initial Brief" or Kroger Co's IB") were also filed or served on November 20, 2009.

Some of the issues raised in the parties initial briefs were addressed in Staff's Initial Brief and, in the interest of avoiding unnecessary duplication, Staff has not repeated every argument or response previously provided in Staff's Initial Brief. Thus, the omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff's Initial Brief.

II. ARGUMENT

A. Response to ComEd

ComEd's arguments against the proposal to allocate primary lines and substations on a coincident peak (CP), rather than a noncoincident peak (NCP) basis are deficient and should be rejected.

The Company begins its discussion by misrepresenting Staff's argument on the issue. ComEd claims that Staff's proposal is designed to address "a 'cost inequity' upon the street lighting class". ComEd IB, p. 25. This is simply not true. The Staff proposal is

based on fundamental cost principles. The CP approach which considers the collective demands of multiple rate classes, rather than the peak demands of individual classes, more accurately reflects the fact that this equipment must meet the collective demands of customers from numerous rate classes at any given time. Staff IB, pp. 32-33. The reason Staff cites streetlighting in its discussion of the issue is because that class which consumes mostly during off-peak hours epitomizes the shortcomings of the NCP approach. Staff IB, p. 33.

The Company also complains that Staff's CP proposal would shift approximately 21% of the street lighting class' revenue responsibility, or $6 million, to other customers. ComEd IB, p. 25. This argument which focuses on results rather than cost responsibility fundamentally conflicts with proper cost allocation methodology. When it comes to cost allocation, the focus should be solely on cost-causation and the allocation for each class should reflect its contribution to the costs in question.

Staff certainly believes that customer impacts should be considered in the ratemaking process. However, the place to do it is not in cost allocation but rather in the subsequent stages of allocating revenues and designing rates. The rate design process rather than the cost allocation process is the appropriate forum for the Commission to determine the best way to balance customer impacts with cost responsibility and cost causation in shaping ratepayer bills. If bill impacts were to be considered in the allocation of costs as well, then the actual responsibility of rate classes for system costs will not be known and the extent to which bill impacts have been factored into the ratemaking process will not be known either.

The Company does make a perfunctory cost argument in support of its NCP approach, noting Mr. Alongi's statement "that ComEd designs its primary lines and substations to meet noncoincident loads and not just those occurring at the time of system peak, as Mr. Lazare incorrectly assumes." ComEd IB, p. 25. This assertion by Mr. Alongi fails to address the specific Staff arguments presented on this issue. If, as Mr. Alongi claims, the Company focuses on the noncoincident loads of individual classes, then it is not clear how the noncoincident peak demands of individual classes would be useful to design primary lines and substations that serve multiple rate classes at the same time. There simply is no good reason to base the construction of plant and equipment designed to serve customers from many rate classes on the peak demands of individual classes. The lighting class is useful to this discussion because it clearly demonstrates the shortcomings of the noncoincident peak approach. Staff IB, p. 33. Because the streetlighting class peaks when other classes use less, the NCP demands for that class would not be relevant in designing the size of primary lines and substations that serve other classes as well. Rather the size of the plant to be built should cover the maximum collective peak demands of all classes (including lighting) to be served. Thus, coincident demands, rather than noncoincident demands, determine the investments in primary lines and substations.

ComEd also cites Commission precedent as a basis for the continuation of the NCP approach. ComEd IB, p. 25. However, in this proceeding the Commission has made a point of reconsidering some longstanding cost of service methodologies to determine whether they stand the test of time. With the Commission clearly seeking to take a fresh look at the entire cost of service, precedent should not derail the

Commission from adopting a more cost-based allocation of substation and primary line costs. Staff Ex. 2.0, pp. 21-22.

B. Response to IIEC

The IIEC's alternative method for differentiating primary and secondary costs as presented in its Initial Brief is problematic and should not be used for allocating the cost of service among ComEd customers.

The IIEC begins its discussion of the primary and secondary cost issue with a critique of ComEd's analysis for this case. The primary concern for the IIEC is that ComEd's study "does not distinguish the costs of serving customers at primary voltages from the costs of serving customers at secondary voltages." IIEC IB, p. 7. The IIEC also complains because ComEd's analysis deems facilities that are energized at primary voltage to constitute primary service regardless of whether they serve primary or secondary customers. *Id.*

A key issue for the IIEC concerns the treatment of transformer costs in its analysis. IIEC expresses concerns about ComEd's argument that transformers should be considered primary costs because the incoming voltages are at the primary level. The problem according to the IIEC is that the outgoing voltages have been stepped down to the secondary level. Therefore, the IIEC finds that transformers are only used by customers receiving service at the secondary level. IIEC IB, p. 8. The IIEC concludes that "[a]ssigning cost responsibility without regard to whether the facilities and costs are

needed to serve primary customers or secondary customers violates the Commission's 'explicit policy objective of assigning costs where they belong.'" IIEC IB, p. 9.

The IIEC goes on to criticize in more general terms ComEd's method of dividing equipment into primary and secondary components based on the voltages they carry, rather than on the voltages of the customers served by the equipment. IIEC IB, pp. 10-13. Staff agrees that is a reasonable criticism of the Company's methodology because the focus of the analysis should not be on the voltages flowing through a piece of equipment, but rather on the voltages of the customers the equipment serves. If, for example, a substation carrying voltages at the primary levels only serves secondary customers, it would not make sense to allocate the attendant costs to primary customers.

The IIEC also discusses ComEd's use of engineering judgment and notes that the limited visual follow-ups performed by the Company led to revisions of the underlying assumptions. The IIEC contends that further follow-ups could improve the accuracy of the results. IIEC IB, pp. 22-23. Staff certainly agrees with this observation. However, the usefulness of this observation for the analysis of primary and secondary costs in this proceeding has not been established by the IIEC.

The problems for the IIEC emerge when it seeks to devise an alternative analysis of primary and secondary costs. The starting point for the IIEC's approach is an alternative set of definitions for primary and secondary service. IIEC defines non-secondary customers as those customers receiving service at the primary level with all other customers receiving service at lower voltages being considered secondary customers. This definition presents two shortcomings. The first is that there are a

number of customers who receive service that has been transformed down to the secondary level but, nevertheless, still bypass the secondary distribution system. The IIEC's definition would fail to recognize the lower cost of serving these customers by lumping them together with customers that do require significant secondary distribution investments to be served. Second, information provided by ComEd suggests that the number of non-high voltage customers who actually receive service at the primary level is quite small, consisting of approximately 300 customers. Staff IB, p. 10. So, if virtually all ComEd customers require transformers to step their power down from the primary to the secondary level, the impact of dividing transformer costs into primary and secondary components may be limited. Staff IB, p. 21.

A more reasonable ratemaking approach would identify the approximately 300 customers who do not require such transformation and adjust their rates downward to reflect transformation cost savings. Staff IB, pp. 10-11. At the same time, rates for the remaining 3.7 million customers whose electricity is transformed down to the secondary level should include an allocation of transformer costs. Id., p. 11. ComEd, for its part, has expressed a willingness to consider such an approach, stating that it "does not object to identifying the non-high voltage customers that do not use a ComEd transformer to review the allocation of costs for transformers not used by certain customers or certain delivery classes and presenting those findings in ComEd's next rate case." ComEd Ex. 10.0, p. 8. The IIEC for its part signals limited support for the Staff proposal, saying it could be considered as an "interim" fix of ComEd's analysis. IIEC IB, p. 20.

The IIEC approach is encumbered by a failure to present specific evidence to support this alternative view of the Company's distribution system. This makes it difficult to evaluate whether each of the sub-systems is meaningful from a cost-causation standpoint and to understand how Mr. Stowe's breakdown of the distribution system serves the cost allocation process. Staff Ex. 2.0, p. 5.

This information shortfall is evident in the efforts of IIEC witness Stowe to divide up ComEd's distribution system into three subsystems for determining primary and secondary costs. According to Mr. Stowe, one subsystem that delivers electricity exclusively to secondary customers; a second that only serves primary customers; and a third that serves both primary and secondary customers. IIEC IB, pp. 15-16. The IIEC then contends that "[c]ustomers who do not receive any benefit from a particular distribution sub-system and do not cause any of that sub-system's costs to be incurred, should not be allocated any of its costs." IIEC IB, p. 16.

In addition, the IIEC complains that "ComEd's P/S analysis assigns to primary customers the costs of lateral primary circuits that are used exclusively to serve secondary customers." IIEC IB, p. 20. The IIEC goes on to state that "[a]n interim fix could require only that ComEd adjust its allocation factors to recognize the ratio of primary to secondary demand for customer classes." Id., p. 21. As an example, the IIEC states that "a class with 60% of its total non-coincident peak demand attributable to service at secondary voltages would have line transformer costs allocated to the class on the basis of that 60%." The IIEC goes on to state that the remaining 40% of demand would not be allocated a share of these costs. Id. The problem is the IIEC does not indicate whether the demand data associated with this "interim fix" is, in fact" available

from ComEd. The discussion by ComEd suggests it is not. The only evidence the Company presented concerning the number of customers receiving service at the primary level is an estimate of 300 based on the number served under Rider PM. How significant the demands are of these customers and how they are distributed across rate classes has not been provided. Nor has any other evidence been presented to show how the levels of secondary demands compare with primary demands on a class-by-class basis. Thus, the IIEC has failed to establish the usefulness of this "interim fix" for addressing the issues in this case.

The IIEC goes on to argue that "ComEd did not account for the fact that many of its area and underground circuits operating at primary voltage serve customers at secondary voltages." IIEC IB, p. 22. The problem again is that the IIEC presents criticisms without estimating the associated costs. This makes it difficult to assess the bottom line impact of the IIEC's criticisms.

When the IIEC does present its revised approach in numerical terms, the shortcomings in its analysis become apparent. The IIEC contends that ComEd misallocated $903 million related to the assignment of in line transformer costs to primary service; $383.6 million pertaining to line transformer related costs to primary service; and $18 million concerning the allocation of line transformer costs to the ELL class. IIEC IB, pp.23-24. The IIEC then proceeds to contend that "a properly revised P/S analysis would relieve primary service customers of at least $80 million in secondary distribution system revenue requirements." Id., p. 24.

The problem is that the IIEC presents little support for these numbers. The source of the $80 million figure according to the IIEC is IIEC Exhibit 2.5. However, that

exhibit simply presents a set of revised cost of service amounts for individual rate classes without showing how those numbers were developed. This makes it difficult to assess the reasonableness of IIEC's alternative analysis of primary and secondary costs that it proposes the Commission adopt in this proceeding.

C. Response to REACT

REACT's proposed allocation of billing and customer information costs between delivery services and supply functions should be rejected because it presents problems from a cost standpoint and conflicts with current ratemaking practices for electric and gas utilities in Illinois. The argument for this proposal is presented by REACT witness Merola. He states that these costs "support both delivery and supply functions", citing in support "ComEd's own analysis which indicates they "must be associated with both functions." REACT IB, p. 38.

When it comes to identifying a specific allocator for these costs, REACT states that it was informed by the Company that "it has not developed functionalization factors designed to support allocation of Customer Care Costs to the delivery and supply functions. REACT IB, p. 38. Therefore, REACT indicated it took the conservative approach of allocating these costs 50/50 between the delivery services and supply functions. Id.

There are a number of problems with this proposal. One is that it is difficult to justify from a cost standpoint. ComEd incurs billing costs for unbundled customers that are almost identical to the costs for bundled customers. In both cases the meter must

be read, the bill prepared and mailed, the payment received and processed. Despite these similarities, the REACT proposal would assign significantly different billing costs for delivery services to these two customer groups. Furthermore, a customer that switches from bundled to unbundled service would pay significantly less for billing services under REACT's proposal even if the underlying costs have not changed substantively. This would send an erroneous price signal concerning the relative cost of bundled and unbundled service. Staff Ex. 2.0, p. 14.

The REACT proposal also appears to conflict with the Commission's determination of the level of credit for bills supplied by RES under the Single Bill Option. That credit, "a relatively low" 54 cents per bill for residential customers, equates to "a little bit more than a dime" when postage costs are removed. This suggests that the Commission has concluded that "the bulk of billing costs should be with the delivery utility" at least as far as the Single Bill Option is concerned. Tr. 465-466.

In addition, REACT's proposal, if adopted, would set a precedent not only for other electric utilities in Illinois, but for all gas utilities as well. REACT's argument in this docket would appear to apply to all utilities where supply costs are significant relative to delivery costs and costs are generally allocated on an embedded cost basis. Adoption in this proceeding would create significant momentum for a proposal with significant drawbacks. Staff Ex. 2.0, p. 14.

III. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this docket.

Respectfully submitted,

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